

GAO

Report to the Congress

July 1986

# FINANCIAL AUDIT

## Federal Home Loan Bank Board's Financial Statements for 1985 and 1984



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**Comptroller General  
of the United States****B-206830**

July 15, 1986

**To the President of the Senate and the  
Speaker of the House of Representatives**

This report presents our opinion on the Federal Home Loan Bank Board's financial statements for the years ended December 31, 1985 and 1984, and our reports on the Bank Board's system of internal accounting controls and compliance with laws and regulations. During 1985, the Bank Board delegated the function of field examinations to the 12 Federal Home Loan Banks. This transfer resulted in a significant reduction of income and expenses on the Bank Board's 1985 financial statements and will have a similar effect on future years' financial statements.

The Federal Home Loan Bank Board is an independent agency which formulates policies for and supervises the operation of the 12 Federal Home Loan Banks, the Federal Savings and Loan Insurance Corporation, and the system of federal savings and loan associations. The Bank Board, under 12 U.S.C. 1438 (c)(6), is subject to the audit provisions applicable to wholly owned government corporations, 31 U.S.C. 9105, which require the Comptroller General to audit the financial transactions of such corporations. We conducted our examinations in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Chairman of the Federal Home Loan Bank Board.



Charles A. Bowsher  
Comptroller General  
of the United States

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**Comptroller General  
of the United States****B-206880**

To the Chairman  
Federal Home Loan Bank Board

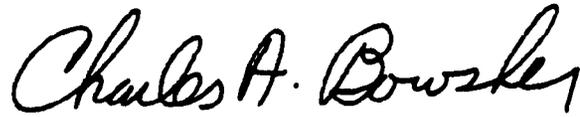
We have examined the statements of financial condition of the Federal Home Loan Bank Board as of December 31, 1985 and 1984, and the related statements of income and expenses and retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in note 2 to the financial statements, on March 14, 1985, the Federal Home Loan Bank Board delegated the function of field examinations to the 12 Federal Home Loan Banks. Effective July 6, 1985, all field examination functions and Bank Board personnel previously assigned to and under the direction of the Bank Board's Office of Examinations and Supervision were transferred to the 12 Federal Home Loan Banks. This transfer resulted in a significant reduction of income and expenses on the Bank Board's 1985 financial statements and will have a similar effect on future years' financial statements. After July 6, 1985, the Bank Board will no longer have income earned from examining insured savings and loans or the related compensation, benefit, and travel expenses associated with the former Bank Board employees performing these examinations. In addition to the effect on the income statement, the Bank Board will no longer accrue accounts receivable for examination fees or payroll and annual leave for the transferred personnel.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Home Loan Bank Board as of December 31, 1985 and 1984, and the results of its operations and

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changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



Charles A. Bowsher  
Comptroller General  
of the United States

June 6, 1986

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# Report on Internal Accounting Controls

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We have examined the financial statements of the Federal Home Loan Bank Board for the years ended December 31, 1985 and 1984, and have issued our opinion thereon. As part of our examinations, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended December 31, 1985. (Our report on the study and evaluation of the system of internal accounting controls for the year ended December 31, 1984, is presented in GAO/AFMD-85-59, July 3, 1985.) For the purpose of this report, we have classified the significant internal accounting controls in the following four categories:

- expenditure cycle,
- financial reporting cycle,
- revenue cycle, and
- treasury cycle.

Our study and evaluation was generally limited to a preliminary review of the system of internal accounting controls. The primary objectives of our study and evaluation were to obtain an understanding of the control environment and the flow of transactions through the accounting system and to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Bank Board's financial statements. Based on our preliminary review, we determined it was more efficient to expand substantive audit tests to verify account balances than to conduct a complete evaluation of internal accounting controls. However, we did evaluate the reliability of the controls over the (1) timely posting of journal entries in all four cycles, (2) appropriate authorizations of activity transferred to the Federal Home Loan Banks in the revenue and expenditure cycles, and (3) proper processing of compensation and benefit expenses and examination fee income in the expenditure and revenue cycles, respectively. Therefore, with the exception of those functions noted, our study and evaluation of internal accounting controls did not extend beyond the preliminary review phase.

The management of the Bank Board is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from

unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph. It was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls already mentioned, and it would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the Bank Board taken as a whole or on any of the categories of controls we identified. However, our study and evaluation of internal accounting controls disclosed no condition that we believed to be a material weakness. During the course of our examination, we did identify a number of opportunities for improving internal accounting controls and procedures. We will communicate our findings to the Bank Board through a separate management letter.

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# Report on Compliance With Laws and Regulations

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We have examined the financial statements of the Federal Home Loan Bank Board for the years ended December 31, 1985 and 1984, and have issued our opinion thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended December 31, 1985. (Our report on compliance with laws and regulations for the year ended December 31, 1984, is presented in GAO/AFMD-85-59, July 3, 1985.)

In our opinion, the Bank Board complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Bank Board was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

# Financial Statements

## Comparative Statement of Financial Condition

DECEMBER 31, 1985 AND 1984

	<u>1985</u>	<u>1984</u>
<u>Assets</u>		
Cash with U. S. Treasury.....	\$ 803,350	\$ 1,087,619
Accounts Receivable (Note 2).....	4,898,604	11,542,921
Land and Building (Note 1).....	45,115,593	45,892,318
Furniture, Fixtures and Equipment (Notes 1 & 2)	5,798,113	5,563,463
Other Assets.....	<u>345,414</u>	<u>-0-</u>
Total Assets.....	\$ 56,961,074 *****	\$ 64,086,321 *****
 <u>Liabilities</u>		
Accounts Payable and Accrued Liabilities.....	\$ 3,124,494	\$ 5,959,402
Employees' Accrued Annual Leave.....	<u>1,436,758</u>	<u>3,577,581</u>
Total Liabilities.....	\$ 4,561,252 *****	\$ 9,536,983 *****
 <u>Capital</u>		
Retained Earnings.....	\$ 8,305,313	\$ 9,965,058
Paid in Capital .....	<u>44,094,509</u>	<u>44,584,280</u>
Total Capital (Note 6).....	<u>52,399,822</u>	<u>54,549,338</u>
Total Liabilities and Capital.....	\$ 56,961,074 *****	\$ 64,086,321 *****

The accompanying notes are an integral part of these financial statements.

Comparative Statement of Income and Expenses and Retained Earnings

FOR THE YEARS ENDED DECEMBER 31, 1985 and 1984

<u>Income</u>	<u>1985</u>	<u>1984</u>
Examination Fees from Savings and Loan Institutions (Note 2).....	\$ 11,716,829	\$ 17,161,428
Assessments:		
Federal Home Loan Banks.....	10,423,660	11,863,914
Federal Savings and Loan Insurance Corporation..	20,960,274	28,365,685
Savings and Loan Institutions.....	10,273,730	11,486,490
Rent and Miscellaneous Other.....	<u>2,021,693</u>	<u>2,664,269</u>
Total Income.....	\$ 55,396,186	\$ 71,541,786
	-----	-----
 <u>Expenses</u>		
Personnel Compensation.....	\$ 32,056,933	\$ 43,078,619
Personnel Benefits (Note 3).....	3,845,608	5,124,326
Travel and Transportation.....	5,242,082	7,791,141
Rent, Communication, and Utilities.....	4,302,309	5,874,695
Depreciation:		
Furniture, Fixtures, and Equipment.....	1,000,005	800,844
Building.....	901,836	885,958
Building Maintenance and Other Services.....	<u>5,937,073</u>	<u>6,698,743</u>
Total Expenses.....	\$ 53,285,846	\$ 70,254,326
	-----	-----
Net Income.....	\$ 2,110,340	\$ 1,287,460
Adjusted Retained Earnings at Beginning of Year (Note 6).....	6,194,973	8,677,598
Retained Earnings at End of Year (Note 6)	\$ <u>8,305,313</u>	\$ <u>9,965,058</u>
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The accompanying notes are an integral part of these financial statements.

**Financial Statements**

**Comparative Statement of Changes in Financial Position**

FOR THE YEARS ENDED DECEMBER 31, 1985 AND 1984

	<u>1985</u>	<u>1984</u>
<u>Source of Funds</u>		
Net Income.....	\$ 2,110,340	\$ 1,287,460
Adjustment for Non-Cash items:		
Depreciation.....	1,901,841	1,686,802
Annual Leave.....	<u>(2,140,823)</u>	<u>269,739</u>
Funds Provided From Operations.....	\$ 1,871,358	\$ 3,244,001
Decrease in:		
Accounts Receivable.....	<u>3,519,422</u>	<u>288,841</u>
Total	\$ 5,390,780	\$ 3,532,842
Financial Resources Generated Not Affecting Cash:		
Accounts Receivable Transferred to FHLBanks (Note 2).....	<u>3,124,895</u>	<u>-0-</u>
Total Funds Provided.....	\$ <u>8,515,675</u>	\$ <u>3,532,842</u>
<u>Application of Funds</u>		
Acquisition of Capital Assets (Note 2).....	\$ 2,004,956	\$ 3,051,729
Decrease in Accounts Payable and Accrued Liabilities.....	2,834,908	675,005
Decrease in:		
Other Assets.....	345,414	(351,155)
Refund of Construction Funds (Note 5) .....	489,771	-0-
Prior Year Adjustment to Retained Earnings (Note 4) .....	<u>-0-</u>	<u>285,917</u>
Total.....	\$ 5,675,049	\$ 3,661,496
Financial Resources Applied Not Affecting Cash:		
Accounts Receivable Transferred to FHLBanks (Note 2).....	<u>3,124,895</u>	<u>-0-</u>
Total Funds Applied .....	\$ <u>8,799,944</u>	\$ <u>3,661,496</u>
DECREASE IN CASH	\$ <u>(284,269)</u>	\$ <u>(128,654)</u>

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

DECEMBER 31, 1985 AND 1984

1. Summary of Significant Accounting Policies:

- a. Furniture, Fixtures and Equipment - Cost of Furniture, Fixtures and Equipment at December 31, 1985 and 1984 were \$11,207,107 and \$10,387,538, less accumulated depreciation of \$5,408,994 and \$4,824,075, respectively. Depreciation is computed on the straight-line method based on an 11 year useful life.
- b. Land and Building - These assets are recorded at cost less accumulated depreciation for the building. Cost of land was \$10,165,227. Building costs at December 31, 1985 and 1984, were \$41,695,292 and \$41,570,177 less accumulated depreciation of \$6,744,926 and \$5,843,086, respectively. Depreciation for the building is computed on the straight-line method over 50 years.

2. Related Party Transactions - The twelve District Federal Home Loan Banks (FHLBanks), together with their member institutions, comprise the primary components of the FHLBank System. In addition, three affiliated corporations - the Federal Savings and Loan Insurance Corporation, the Federal Home Loan Mortgage Corporation and the Neighborhood Reinvestment Corporation - assist in carrying out the Bank System's mission. The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent Federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for the federal savings and loan associations and federal mutual savings banks. Further, the Bank Board, through the Federal Savings and Loan Insurance Corporation (FSLIC), governs the insurance of accounts in savings and loan associations and mutual savings banks. Bank Board expenses are met through assessments from the FHLBanks and the FSLIC and from member institutions for examinations.

On March 14, 1985, the Bank Board delegated the responsibility for examining Savings and Loan institutions to the Federal Home Loan Banks and, at the same time, voted to transfer the entire District Office staff to the 12 Federal Home Loan Banks. This action became effective on July 6, 1985. The Bank Board believes that this organizational change will improve the Agency's operational effectiveness and enable it to respond more quickly to the complex challenges posed by the thrift industry. As a result of this transfer, \$3,124,895 of OES examinations-in-process accounts receivable and \$645,190 of furniture, fixtures and equipment were transferred to the FHLBanks and therefore were charged against the Board's retained earnings.

3. Retirement Plan - Substantially all of the Bank Board's employees are covered by the Civil Service Retirement System, which is currently two-tiered. For employees hired prior to January 1, 1984, the Bank Board withholds approximately 7 percent of their gross earnings. Their contribution is then matched by the Bank Board and the sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. For employees hired on or after January 1, 1984, the Bank Board withholds, in addition to

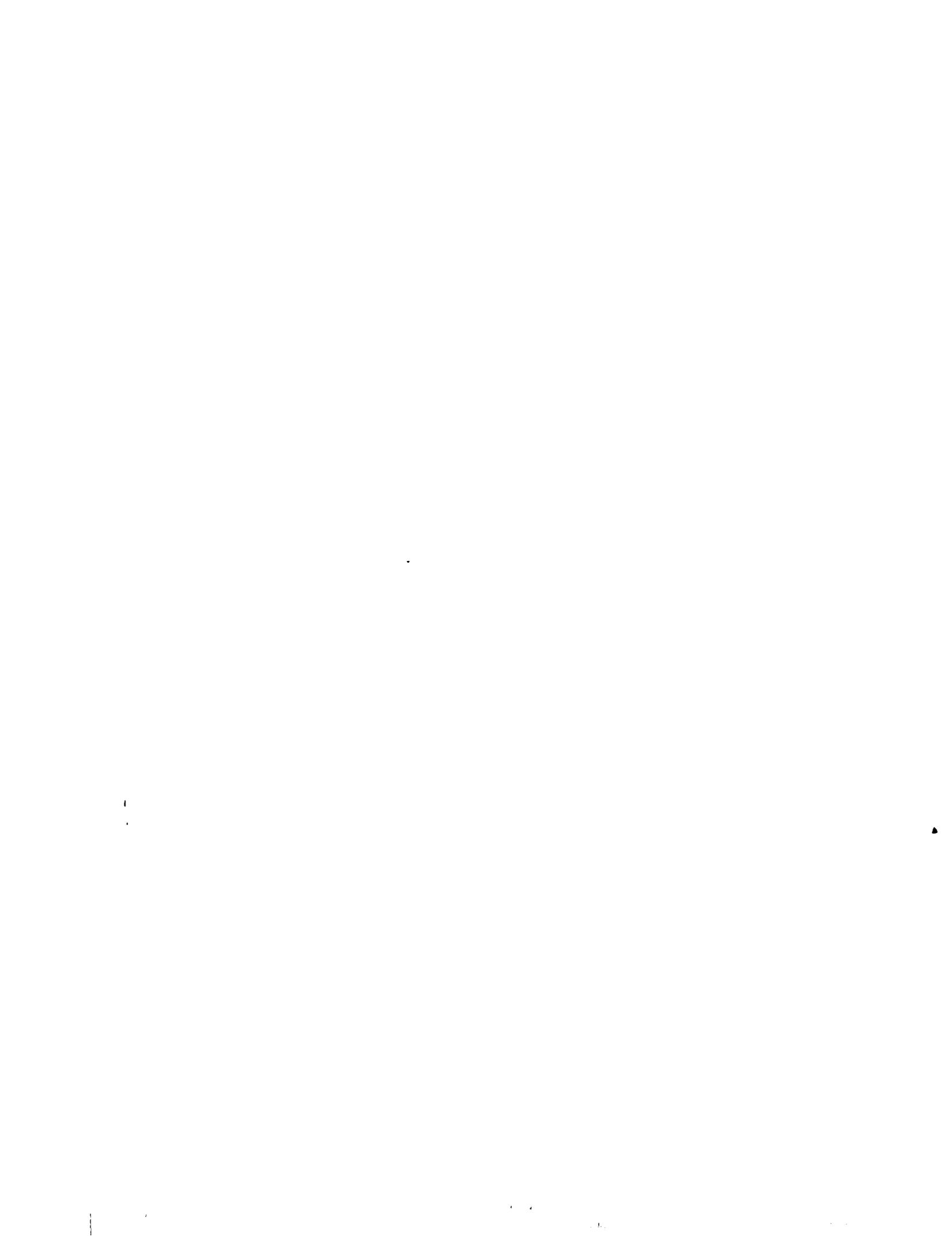
social security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution, as above. This second employee group will receive retirement benefits from the Civil Service Retirement System along with the Social Security System, to which they concurrently contribute. The retirement plan expenses incurred for calendar years 1985 and 1984 were \$1,990,628 and \$2,870,492 respectively.

Although the Bank Board funds a portion of pension benefits under the Civil Service Retirement System relating to its employees and makes the necessary payroll withholdings from them, the Bank Board does not account for the assets of the Civil Service Retirement System nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for the Retirement System and are not allocated to the individual employers.

4. Prior Year Adjustments - Prior year adjustments of \$285,917 represent adjustments to retained earnings for various expenses charged in 1985 that should have been expensed in 1984.
5. Refund of Construction Funds - In October 1985 the Federal Home Loan Banks were refunded the unused portion of the construction funds (\$489,771) they had originally contributed to build the Federal Home Loan Bank Board Building in 1975. Therefore, paid-in-capital was reduced by \$489,771 since the FHLBank construction funds were originally credited to paid-in-capital.

6. Capital:

	1985	1984
Retained Earnings at Beginning of Year	\$ 9,965,058	\$8,963,515
Prior Year Adjustment (Note 4)	-0-	(285,917)
Transfer of FF&E (Note 2)	(645,190)	-0-
Transfer of OES Accounts Receivable (Note 2)	(3,124,895)	-0-
Adjusted Beginning Retained Earnings	6,194,973	8,677,598
Net Income	2,110,340	1,287,460
Retained Earnings at End of Year	8,305,313	9,965,058
Paid-in-Capital at Beginning of Year	44,584,280	44,584,280
Refund of Construction Funds (Note 5)	(489,771)	-0-
Paid-in-capital at End of Year	44,094,509	44,584,280
Total Capital at End of Year	\$ 52,399,822	\$ 54,549,338



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